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ABSTRACT

Adopted by the 18th Convention of the AFL-CIO, this document contains discussions and resolutions in four areas: economics; international trade and investment; takeovers, mergers, and leveraged buyouts; and employment and training. The discussion on the economic situation focuses on unemployment and the economy, inadequate jobless benefits, jobs created, the service economy, dislocated workers, regional and urban problems, struggling families, soaring executive pay, productivity issues and national budget trends. The national economy resolution which follows the discussion sums up the most pressing problems raised and suggests measures the nation needs to take to reverse the policies of the past and improve prospects for all Americans. The discussion on international trade and investment looks at the U.S. trade deficit, the U.S.-Canada free trade agreement, and international trade and investment. The third area--takeovers, mergers and leveraged buyouts--covers corporate indebtedness and job loss. Employment and training, the fourth area, speaks to full employment, training, and labor market institutions. In each case, resolutions embodying policy recommendations for resolving the problems reviewed follow the discussions. (DB)

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# The POCKETBOOK ISSUES

## AFL-CIO POLICY RECOMMENDATIONS FOR 1990

- The National Economy
- Trade and Investment
- Takeovers, Mergers, and Corporate Restructuring
- Employment and Training

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*This pamphlet is reprinted from the National Economy section of the Report of the Executive Council of the AFL-CIO to the Eighteenth Convention, Washington, D.C., November 1989, and contains resolutions adopted by the Convention on the Economic Situation; International Trade and Investment, Takeovers, Mergers, and Leveraged Buyouts; and Employment and Training.*

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# The Economic Situation

The expansion of the economy after the 1982 recession has not been accompanied by the social progress typical of most periods of economic growth. While some in our society have benefited greatly, the majority has not.

The last long period of post-recession expansion—1961 through 1969—brought the national unemployment rate down to 3.5 percent and the resources were made available to address basic problems, such as discrimination and inner city slums, lagging regional economies and the training needs of the workforce. There was a national initiative which culminated in the moon landing in 1969. The benefits of growth were shared in a fashion which narrowed the gaps between rich and poor and sharply improved the living standards of working people.

The share of the national income going to the lowest fifth of the families rose from 4.7 percent to 5.6 percent in the 1960s. In contrast, in the 1980s expansion, the income share of the lowest group fell. During the 1960s, the poverty rate fell from almost 22 percent to 12 percent—down 10 percentage points. In the 1980s, the poverty rate fell only from 15 percent to 13.5 percent in 1987.

The nation is weighed down by an enormous and rapidly growing national debt. Most of this has accumulated during the 1980s.

Annual trade deficits have weakened the economy and turned the nation into the world's biggest debtor nation after being a net international creditor a few short years before.

Many large corporations are staggering and falling under huge debt loads resulting from unrestrained mergers, buyouts and other Wall Street financial maneuverings.

Significant numbers of workers are either jobless or underemployed. Dislocated workers by the millions are victims of the drift away from a world-class industrial power toward a low-wage service economy. Many people need more and better education. Others need training for present and future jobs. There are severe regional problems related to agriculture or weaknesses in the domestic oil and gas industries. Many cities and regions have not shared in the benefits of economic expansion. The poor are often left behind in central cities or in rural areas, while the more affluent and more fortunate move on to greener pastures.

Many banks have failed. The cost to the nation of the savings and loan debacle has been estimated in the range of $160 to $300 billion and will take many years to straighten out.

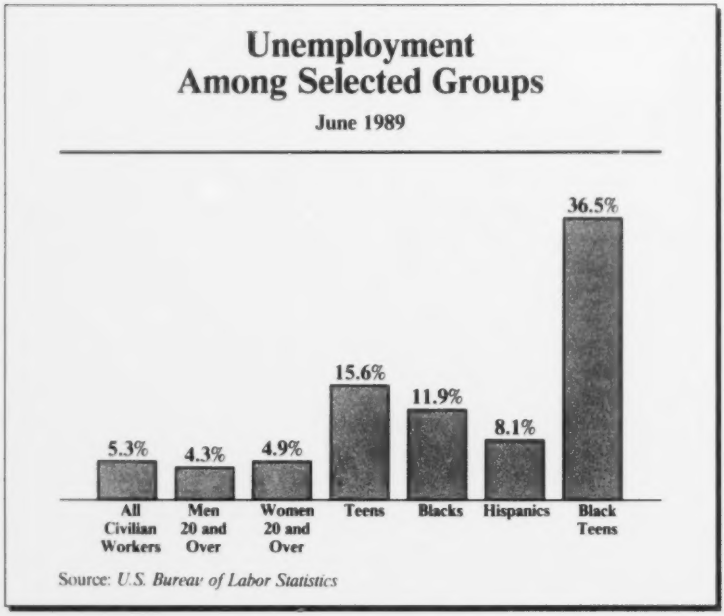
Recently the economy has shown some signs of weakness, much of it caused by the Federal Reserve Board actions to fight inflation, which in fact remains moderate. The dollar, which declined in value against many foreign currencies between 1985 and 1988, has begun rising again, threatening to worsen the already bad trade gap.

The federal budget stalemate overhangs all. The Bush Administration has failed to put forward credible policy proposals to address either the spending side of the budget or the basic revenue shortfall that fosters chronic neglect of important national needs and adds to the national debt while feeding the budget deficit.

Problems cry out for attention: national health, the environment, replacement and upgrading of public infrastructure, a severe shortage of affordable housing for low- and moderate-income families, the need for education and worker training, to name a few.

## *Unemployment and the Economy*

In June of 1989, the national unemployment rate was 5.3 percent. There were 6.6 million officially unemployed in June, 0.9 million discouraged workers and 5 million involuntary part-time workers, for a total of 12.5 million workers affected by total or partial unemployment. Thus, despite six years of economic growth, unemployment was still above full employment goals, and some groups experienced much higher rates of joblessness. Teenage unemployment was 15.6 percent. Black and Hispanic rates were 11.9 percent and 8.1 percent, respectively. Unemployment for black teens was a whopping 36.5 percent.



In the year ending in June, the total number of jobs, as measured by the government's establishment survey, showed an increase of 2.9 million or 2.7 percent. Manufacturing jobs increased slowly by 1.2 percent. Service jobs grew by 5 percent.

These trends were typical of the recent past, although there has been a noticeable slowdown in job growth. In 1988, for example, the economy added 3.7 million new jobs for an increase of 3.6 percent. The service sector added jobs at twice the rate of the manufacturing sector: 5.2 percent and 2.5 percent, respectively.

In 1988, services produced one-third of all new jobs, although this sector represented only a fourth of total employment. In contrast, manufacturing accounted for only 8 percent of all new jobs, though manufacturing represented 18 percent of total jobs. Deindustrialization of the national economy and the rapid rise in service sector jobs thus continued.

The number of part-time and temporary workers—the contingent workforce—has increased sharply since 1980. In 1988, almost 37 million workers were in some type of contingent employment and more than half of the job growth between 1980 and 1988 has been contingent work. By and large, these jobs offer lower pay, fewer benefits, and little employment security.

## *Inadequate Jobless Benefits*

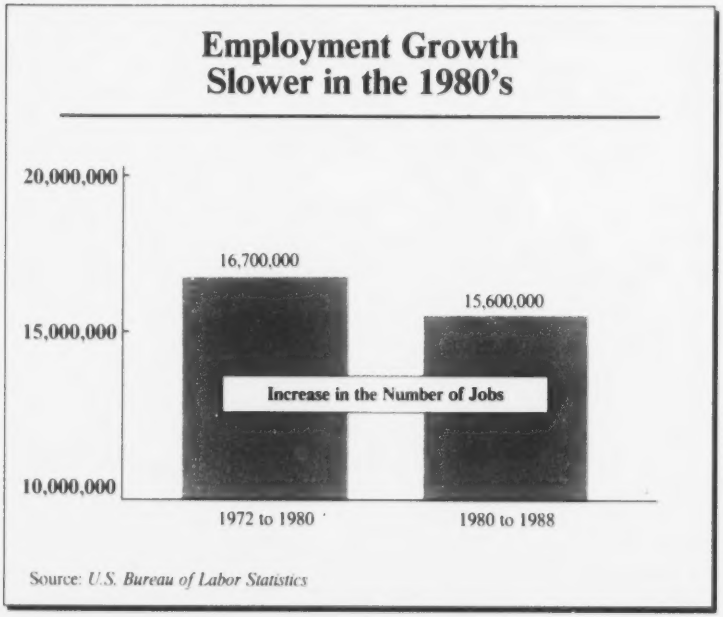
But those without jobs, by and large, receive no unemployment benefits. The proportion of the unemployed receiving unemployment insurance was about 32 percent in mid-1989. In 1975, more than three-fourths of jobless workers received unemployment compensation. More than a decade of neglect has left the federal-state unemployment compensation system so frayed that it no longer functions as a safety net for America's jobless workers. The federal government and the states have continuously restricted worker eligibility for benefits and have failed to put the unemployment compensation trust funds on a sound financial basis. States have underfunded the program by putting employer payroll tax rates too low. Unemployment taxes as a percentage of total wages have dropped from 1.35 percent of payroll 10 years ago to about 1 percent.

Even those fortunate enough to receive jobless benefits are not offered much help. The unemployment insurance system should provide a weekly benefit that amounts to at least half the average individual's weekly wage, according to a government commission that studied the problem several years ago. But in 1989, the average weekly benefit has been just 35 percent of the weekly wage.

## *Jobs Created*

Employment growth has slowed during the 1980s. From 1980 to 1988, more than one million fewer jobs were created than during the previous

eight years. On average, 2.1 million net new jobs were created per year during the 1972-80 period, compared to about 1.9 million annually since then. While the jobs in the economy grew by about 23 percent in the 1970s, jobs grew by only about 17 percent during 1980-1988.



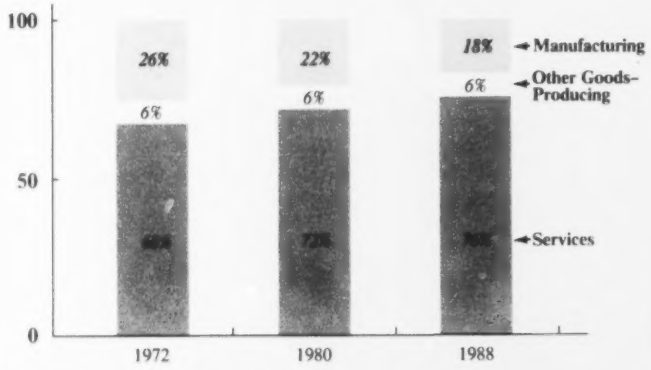

## *The Service Economy*

The severe impact of the deep recession in the early 1980s on manufacturing and the continued legacy of high trade deficits throughout the 1980s undermined America's industrial base. This could be seen in the changing composition of jobs. Over the 16 years from 1972 to 1988, service sector jobs inexorably displaced manufacturing. Service jobs represented 68 percent of all jobs in 1972. By 1988, services rose to more than three-quarters. Manufacturing, about one in four jobs in 1972, represented less than one in five by 1988.

The economy produced about 1.1 million new manufacturing jobs between 1972 and 1980. During the next eight years, however, there was a net loss of manufacturing jobs and in 1988, the total number of manufacturing jobs in the U.S. was only slightly higher than in 1972.

Over the past decade, 1.2 million manufacturing jobs and almost another quarter million mining jobs have disappeared. These were in the main good jobs with average wages in the $10-$13 per hour category.

## Changing U.S. Jobs: The Rise of Services and the Fall of Manufacturing




Source: *U.S. Bureau of Labor Statistics*

Much of the job growth that did occur was in lower paying service and retail trade jobs.

For example, workers in retail trade earn an annual income of less than $15,000, based on official average hourly wages. Workers in manufacturing, on the other hand, would enjoy much higher annual incomes of almost $22,000—$7,000 more. These job changes have contributed to a decline overall in living standards and a growing group of workers struggling too often without success to make ends meet in the new service economy.

Since 1979, jobs have been lost in nearly every sector of manufacturing. There are fewer steel, copper, and other metals jobs than before. Jobs in transportation equipment have been lost. There have been big declines in stone and glass products, apparel, textiles, leather and other categories.

## *Dislocated Workers*

The national industrial upheaval has disrupted the lives, incomes, and security of millions of American workers. Plant closings and corporate restructurings have resulted in job losses, cuts in hours and pay, a fall from full-time to part-time status, and loss of benefits. Tens of millions of workers and their families today have no health insurance.

Nearly a million workers a year were displaced from their jobs during the 1983 to 1988 period, resulting in a total of 4.7 million dislocated workers according to studies of the U.S. Bureau of Labor Statistics. These are workers who had at least three years of job tenure. They lost their jobs to plant closings, relocations, slack work or the elimination of jobs or complete shifts. Millions more were dislocated, but with fewer than three years of tenure in their jobs.

Almost 40 percent of those displaced worked in manufacturing, although after years of deindustrialization the Bureau of Labor Statistics has noted that the share of displaced manufacturing workers in the most recent survey has slackened from previous surveys.

At the time of the survey, about 14 percent of the 4.7 million workers were still jobless. An almost equal share were out of the workforce completely. More than 40 percent of those displaced either received no advance notice of plant closing or did not expect layoff.

More than two-thirds of the dislocated workers were re-employed. But many re-employed workers either worked part time or had lower incomes after their displacement. More than one million of those with full-time wage and salary jobs before and after displacement lost at least some income.

**4.7 Million Workers Displaced Between 1983 and 1988 as of January 1988 (In Percent)**

| | |
|---|---|
| Unemployed | 14% |
| No longer in labor force | 15% |
| Working, but with pay cut of 20 percent or more | 30%* |
| Plant or company closed down or moved | 58% |
| Manufacturing | 39% |

*Includes only those with full time wage and salary jobs both before and after displacement, but excluding those not reporting earnings on lost jobs.

Source: U.S. Bureau of Labor Statistics

## *Regional and Urban Problems*

The restructuring of American industry and the resulting loss of manufacturing jobs were not the only problems faced by many regions and cities. Some areas suffered, in addition, from problems of agriculture and depressed energy prices. Drought and low oil and gas prices have fed into a downward spiral for many areas with foreclosed homes, closed factories, unoccupied new office buildings, joblessness and other social problems the visible result. Failed and weakened financial institutions followed. Large older central

cities have also suffered long-term physical decline of their infrastructure, increased problems of drugs, crime and high rates of poverty. The poor remain in the cities. The more affluent and businesses continue to migrate to suburban areas, thus further weakening the tax base of many cities.

While these problems have grown, much of the assistance formerly provided by the federal government has been withdrawn. Aid for community development has been cut back. General revenue sharing assistance is gone. Other programs which provide education and training aid have been scaled back as well. The states and cities are increasingly being thrown back upon their own resources to deal with important needs of national scope. They are often not able to cope. Depressed area conditions have driven many states and localities to mount "economic development" programs to create jobs and foster local industry, often entering a counterproductive bidding war with other areas to lure new businesses and jobs or pirating jobs in a desperate attempt to improve local conditions. Many of these efforts are expensive, self-defeating, and ineffective in their ultimate effect.

The Bush Administration response of an enterprise zone proposal is similar to other tax proposals previously studied and rejected by Congress. The AFL-CIO has opposed such measures noting that such tax "incentives" would encourage existing businesses to shift around from place to place and federal tax dollars would be squandered paying firms for doing what they would be doing anyway.

## *Struggling Families*

Real incomes for families with only one wage earner have fallen drastically in the past decade, and even those with a second earner have made only modest gains. Family incomes have become more unequal and the gap between the rich and the poor has widened.

Low- and middle-income families have received an increasingly smaller share of the nation's income while those at the top have substantially increased their share. Over the 1977-1987 period, for example, the 20 percent of families with the lowest incomes has received a shrinking share of all family income—dropping from 5.2 percent in 1977 to 4.6 percent in 1987. By contrast the share of the highest 20 percent has risen from 41.5 percent in 1977 to 43.7 percent.

The large-scale entry of women into the labor force, with increasing proportions working year-round on a full-time basis, has kept the average family afloat as real earnings for male workers have trended downward.

Real average weekly earnings are down substantially in 1989 from a decade ago—for private nonfarm production and nonsupervisory workers as a group. In the 1978-79 period, average weekly earnings adjusted for inflation were in the $350-$360 range, compared with weekly earnings in the $320-$330 range or below in 1988-1989. These inflation-adjusted earnings are measured by dollars of 1988 purchasing power. Average hourly earnings and average weekly earnings for production or non-supervisory

workers have failed to keep up with inflation in recent years. In the two years ending in mid-1989, for example, average hourly earnings were 1.7 percent below that of two years before while average weekly earnings were down by 2.4 percent. This reflects a restructuring of work with relatively fewer jobs available from higher-paid sectors of the economy—like manufacturing, public utilities, and wholesale trade—and many more from low-paid retail and service groups.

## Average Weekly Earnings, 1978 to June 1989

**(1988 Dollars)**

Source: *Bureau of Labor Statistics*

Housing costs in particular have been an increasing source of pressure on the ability of families to make ends meet, especially younger families. Families with household heads under age 35 who own their own home dropped from 43 percent to 39 percent between 1981 and 1988.

The 4.8 percent rise in compensation costs for U.S. workers for the year ended June 1989 was slightly higher than the 4.6 percent increase for the previous year according to the U.S. Department of Labor's employment cost index (ECI). The ECI measures changes in compensation costs—wages, salaries, and employer costs for employee benefits (the increase in health care costs accounts for much of the rise in the ECI). The rise for state and local government workers was 5.8 percent for the latest year, up from 5.0 percent in the previous year.

Compensation increases for union workers, as measured by the ECI, were 4.3 percent in the 12 months ending June 1988 and 3.1 percent in the latest year. Non-union compensation rises were higher than in the union sector

and were rising—4.5 percent and 5.0 percent, in 1988 and 1989 respectively. But members of unions still enjoy a union advantage. They had median weekly earnings of $480 in 1988, compared with $356 for non-union workers—35 percent more.

Major union contracts showed gains from the last time the same parties bargained. Wage gains for workers under new contracts in the first half of 1989 averaged 3.7 percent in the first year and 3.3 percent annually over the life of the contracts. These gains are up from 2.1 percent and 2.5 percent negotiated two or three years ago, the last time these same parties bargained.

The value of the minimum wage for the lowest income group of working poor in society has eroded significantly over the past two years. The consumer price index rose by more than 9 percent in the two years ending in mid-1989. The minimum wage, on the other hand, was stuck at $3.35 per hour, as it has been since 1981. The minimum wage represented about 48 percent of average hourly earnings in 1981. It had been in that range for most of the 1970s and it had been over half of average hourly earnings before that. During the 1980s, the minimum wage fell to only 35 percent of average earnings by mid-1989. In order to restore the minimum wage to the purchasing power prevailing in 1978, when the most recent changes in the rate initially went into effect, would require a wage of $5.18.

## *Soaring Executive Pay*

In contrast to the situation for working people, big business executives have enjoyed high salaries, big raises, golden parachutes and all the "perks" of high corporate office. The latest Business Week survey of corporate executives for 1988 revealed that, for the first time, average salary and bonuses for CEOs topped the $1 million mark and the average total compensation jumped to more than $2 million. The average CEO salary and bonus rose 17 percent, more than four times as much as the average wage increase for workers generally in 1988, as well as far above the 4.4 percent inflation rate.

In 1960, the average CEO earned 41 times the average pay of the factory worker. Today it is 93 times as much.

In a special survey, Financial World magazine recently estimated that the top ten Wall Street professionals in 1988 earned a total of almost $1 billion. They were led by indicted financier Michael Milken, former junk bond chief for Drexel Burnham Lambert, Inc., who got more than $180 million.

## *Productivity*

Productivity improvements are best when the economy is healthy and production is growing. But productivity growth was slowed by the deep recession in the early 1980s, and a generally unbalanced economy with high

unemployment. Productivity was actually negative in 1982 because of the loss of production and jobs in the deep recession. Productivity picked up in 1983, ranged from 2.1 percent to 2.7 percent from 1983 to 1986, then dropped off substantially in 1987 and 1988. The 1.8 percent growth in 1988 and the further decline in growth in early 1989 reflected a weaker economy.

**Annual Rate of Productivity Change**

| | Private Business | Manufacturing | Non-Manufacturing |
|---|---|---|---|
| 1950-60 | 2.7% | 2.0% | 2.1% |
| 1960-70 | 2.7% | 2.6% | 2.2% |
| 1970-80 | 1.2% | 2.3% | 0.4% |
| 1980-88 | 1.5% | 3.8% | 0.6% |

Source: Bureau of Labor Statistics

Productivity increases in the past two decades were relatively small and the increases that did occur were not accompanied by comparable increases in worker buying power. Instead, real hourly earnings for production and nonsupervisory workers fell 1 percent from 1980 to 1988.

The failure of wages to keep up with productivity was much more pronounced in manufacturing. Manufacturing productivity rose 34 percent from 1980 to 1988 while real average hourly earnings in manufacturing fell 1 percent.

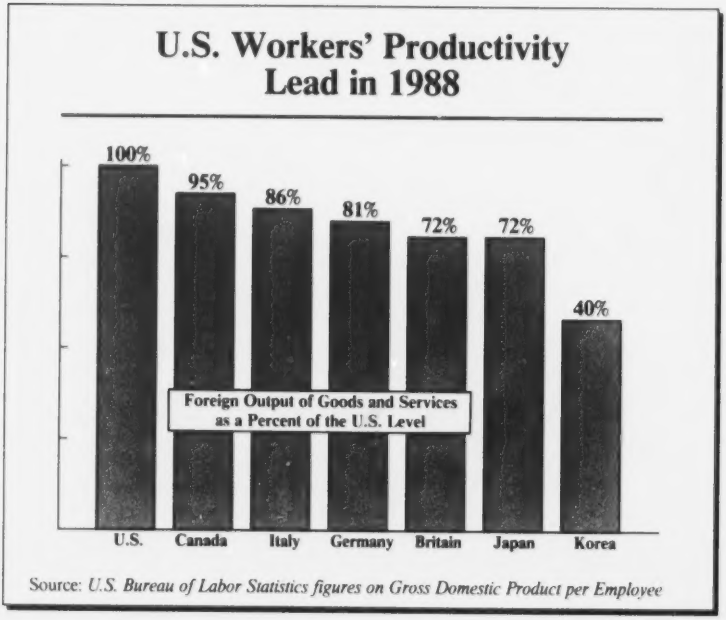
The rise in imports and the persistent trade deficit contributed to a drop in overall productivity. The loss of U.S. manufacturing production to imports reduced the proportion of manufacturing activity in relation to other sectors of the economy where productivity gains have been smaller. The value of production among manufacturing workers, for example, averaged $44,065 in 1987, compared to $31,237 for service workers.

On the other hand, measuring the output of the services is difficult and the productivity rates reported for service jobs probably shortchanges the actual contribution by the service industry to productivity. The measure of productivity in services is based in large part on wages rather than a quantifiable measurement of the value of output.

A study by the Economic Policy Institute suggests that the official productivity figures attribute too much of the private business productivity increase to manufacturing and too little to non-manufacturing. The problem stems in part from the failure to adequately account for the loss of manufacturing production as imports surged.

The United States still leads other industrialized nations in productivity. German workers produced only 81 percent as much as American workers in 1988, according to the Bureau of Labor Statistics figures. Workers in Britain and Japan produced only 72 percent as much as Americans, and

Korean workers were well behind producing only 40 percent as much. However, these differentials have been shrinking, partly as a result of major economic problems in the 1980s.




Source: *U.S. Bureau of Labor Statistics figures on Gross Domestic Product per Employee*

## *National Budget Trends*

During the 1980s, the Reagan Administration sought to cut domestic social programs while also cutting taxes and building up the military. Federal revenues fell far short of outlays, resulting in annual deficits and a climbing national debt. The annual revenue shortfalls were primarily the legacy of the 1981 tax cut for the wealthy and for big businesses. Despite numerous tax increases since then, the 1981 tax cut represents yearly revenues foregone of $171 billion, almost $10 billion more than the federal deficit for the year (1989) as estimated by the Administration.

The red ink each year resulted in rising interest payments and continuing pressure to cut domestic programs. And cut they were.

Funds for assistance to cities, employment and training programs, food stamps, welfare, education, and programs to assist lower-income people—

particularly assisted housing—were the annual victims of the ongoing budget crisis.

Also, in recent years, the Reagan-Bush Administrations have become dependent on the Social Security and other trust fund annual surpluses to make the annual deficits look less bad than they really are. For example, in 1989, the overall budget deficit of $161 billion would be $217 billion, except for being offset by the $56 billion Social Security surplus for the year.

So far, the Bush Administration has not realistically addressed the shortfall of revenues that would break the crucial fiscal deadlock plaguing the nation. Meanwhile, the problems that have festered and grown through years of neglect—many of them big ticket items—loom on the horizon.

Infrastructure needs, toxic waste cleanup, national health needs, education and training, and the savings and loan crisis top the list.

* * *

*Policy recommendations for resolving the nation's economic problems are contained in the following resolution adopted by the 18th AFL-CIO Convention, November 1989.*

## The National Economy

Economic growth and social justice remain key problems for the American economy. Trickle-down economics and shortsighted, profits-at-any-price business priorities continue to dominate the nation's major economic policy decisions.

As a result, many American workers and their families fail to share in the economic gains accruing to big corporations and to a relative handful of the rich. The economic expansion of the past seven years has lifted the living standards of those already at the top of the income ladder, but middle America has seen little or no improvement, and those at the bottom are worse off than they were in 1979.

Meantime, fundamental issues—education, training, civil rights, poverty, housing, public facilities—are pushed to a back-burner because of the sorry state of the federal government's finances.

To avert a tragedy from an economic downturn, the nation needs to act now to reverse the policies of the past and improve prospects for all Americans.

Huge federal budget deficits, huge trade deficits, growing foreign debt, corporate mergers and takeovers and plant closings, unemployment, inadequate protections against layoffs and ill health, and unfair distribution of income are persistent serious economic problems for workers and for the nation.

In the $5 trillion U.S. economy, some Americans are doing very well—especially the top business executives who get $10 to $40 million a year in compensation or $10 to $50 million in "golden parachutes" when they lose their jobs in mergers, takeovers, and leveraged buyouts by giant corporations.

But the bulk of working people are losing in their struggle to get ahead. Since 1979, median earnings for all full-time wage and salary workers have gone up 70 percent—but inflation went up 76 percent, leaving these workers with less buying power now than they had 10 years ago. And there are now 9 million adult working poor people—a 50 percent increase since 1979.

Jobs are less secure. Employers are turning more and more to part-time workers, temporary workers, and leased workers who don't get seniority and fringe benefits—workers who can be easily dropped from the regular payroll.

America is still far from the national goals set by the Humphrey-Hawkins Full Employment and Balanced Economic Growth Act. In mid-1989 some 12 million American workers were unemployed or underemployed—and some 18 to 20 million workers experience some unemployment during the year—but less than a third of the officially jobless were getting unemployment compensation.

The $3 trillion federal government debt—the result of eight years of federal budget deficits ranging from $128 billion up to $221 billion annually—has a number of bad effects on the U.S. economy. It hurts consumers, small business, and state and local government infrastructure investment. It adds more debt to the existing federal debt. And it puts the U.S. economy more and more under the control of foreign lenders—as does the U.S. foreign trade deficit.

As recently as 1982, the United States was the world's biggest creditor nation. For the past five years the U.S. foreign trade deficit has been more than $100 billion a year. Now, the United States is the world's biggest debtor nation. Millions of jobs have been lost, mines and factories shut down, families driven off their farms, and local communities shattered.

## AFL-CIO Program

Economic progress and social justice continue to be key goals for American workers and their families and for the unions that represent them. But the expansion of the American economy after the deep 1982 recession has been accompanied by little in the way of improved living standards or social progress. While some in our society have benefited greatly, the majority has not. Major economic and social problems have been ignored or deliberately set aside to fester, grow and jeopardize future generations of Americans.

We call for economic policies which promote social progress as well as material well-being, policies which achieve a sensible balance between the needs of the future and the demands of the present.

Both the private sector and the public sector have essential roles in America's economic and social life. Collective bargaining has a key role.

The federal government has a key leadership role.

We call for programs to enable all Americans willing and able to work to have a job at a decent wage. Workers in both the private sector and in the public sector should receive fair compensation. Workers are entitled to real increases in wages, and a fair sharing of the fruits of higher productivity. The minimum wage should be restored to its traditional level of half the nation's average hourly earnings.

Additional private and public funds should be allocated for training and retraining. The unemployed need not only retraining, but an unemployment insurance system that provides adequate benefits and full coverage for those who have lost their jobs. The employment service must be reinvigorated and provide workers with information and referrals to all job openings. Those unable to work should have the support necessary for a decent life.

Full employment is the key to a healthy economy. Broad-gauge national economic policies—fiscal, monetary and trade—are the best foundation for full employment. But these economic policies must be supported by social policies and programs addressed to specific needs and gaps such as education, training, anti-discrimination, family leave, child care facilities, and workplace health and safety.

Lower interest rates are needed to stimulate job-creating private investment in housing and small business, to help family farmers, and to help states and localities pay for the repair and rebuilding of the nation's roads, bridges, water systems, recreational facilities, and transportation network.

The federal budget crisis should be addressed forthrightly. The chronic deficits and the huge debt load with the evergrowing interest payments must be dealt with in a manner that meets national needs and does not depend upon reserves set aside for future Social Security obligations. The federal government's role as an economic balance wheel and partner in the provision of essential facilities, services and safeguards must be restored. If the economy turns into recession, the full fiscal and monetary powers of the federal government should be used to stop the downturn, promote economic growth, and relieve suffering.

New programs must address problems related to the aging of the nation's population, the education of our youth, the environment, health, growing drug and crime problems, and the rebuilding of the country's basic infrastructure.

We also call for enactment of a national health care program that will assure quality affordable health care to all Americans.

The country's needs can only be met by more revenue. The current federal revenue shortfall is the result of unwise and unfair tax cuts, not excessive spending. The President and the Congress should obtain the necessary revenue by closing tax loopholes and by making the income tax rate structures more progressive. Capital gains should be taxed the same as other income. High-turnover churning of the stock market by stockbrokers and other Wall Street money-manipulators should be discouraged by a transaction tax. Special inheritance and special trust loopholes should be closed. Tax policies that encourage leveraged buyouts and the shifting of production abroad must be changed.

State and local tax systems still rely too heavily on unfair taxes which overburden poor and middle-income families. State corporate and personal income tax structures should be strengthened; sales taxes can be made more equitable through taxing certain services; and, property tax reforms should include "circuit breakers" to provide relief for lower income homeowners and renters, the elimination of tax abatements and improving assessments and administrative practices. More uniformity in state tax codes is also necessary so that states can more fairly assess the tax liability of interstate and international business.

Fair distribution of income is a key component of both social justice and economic progress. Excessive concentration of the nation's income and wealth can be reduced by better tax policy, by enforcement of effective anti-trust rules, by prosecution of white-collar crimes too often found on Wall Street and in corporate executive suites.

Moderate- and middle-income Americans are still facing an economic squeeze.

Poverty remains a persistent national problem. The needs of the homeless, destitute, disabled, elderly, and particularly the needs of children in poverty, should be met. The special needs of moderate- and middle-income Americans should be met by carefully targeted social programs like child care, parental leave, pension reform, and national health reform.

It is time to curb anti-social, non-economic mergers and takeovers and leveraged buyouts by speculators and raiders who juggle billions of dollars of other people's money, too often at the cost of lost jobs and shattered communities. The increasing concentration of economic power in giant multinational corporations and financial institutions should be monitored and controlled within the United States and by international action.

The nation should establish domestic and international economic policies that lead the U.S. and the world into a healthy, expanding international economy. This will require coordinated international action on labor standards and labor rights, on trade and exchange rates, and on debt relief that produces long-run stability and growth for the United States and other nations.

# International Trade and Investment

Despite some improvement in America's international trade account since 1987, there is no end in sight to the crippling deficits that have seriously injured this nation's economy and made the United States the world's largest debtor nation. The continuation of the U.S. trade deficit at unprecedented high levels has caused untold hardship for millions of American workers and scores of communities, and remains a clear and present danger to the economic health and security of the nation.

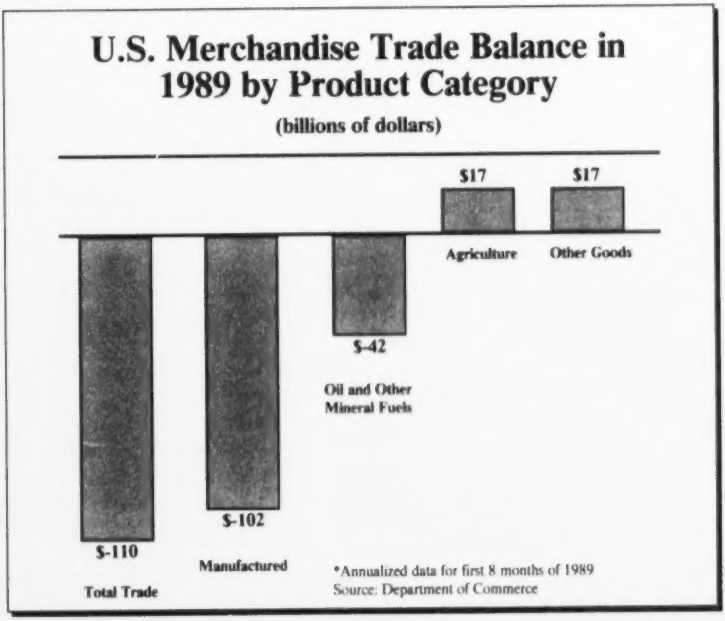
After peaking at $152 billion in 1987, the U.S. merchandise trade deficit declined to $119 billion in 1988 and is expected to show only marginal improvement for 1989. These gains were due to particularly strong export growth in 1988. That growth, however, has now slowed substantially, while

imports have continued to increase. It is clear that export growth alone will not eliminate this nation's trade deficit.

Central to the deficit is the imbalance in manufactured goods trade. The 1988 shortfall of $106 billion represents almost 90 percent of the total merchandise trade deficit. At the beginning of the decade, the United States enjoyed a trade surplus in this vital sector. This rapid and massive shift in terms of trade has weakened America's industrial base. If significant improvement in U.S. trade is to be realized, it will have to take place in this sector.

Eighty-five percent of America's trade deficit is accounted for by just nine countries—Japan, Taiwan, Germany, Canada, South Korea, Brazil, Hong Kong, Italy, and Mexico. The U.S. trade deficit with Japan, alone, approached $50 billion in 1988.

The continuing deficit has required the United States to borrow heavily from abroad. This borrowing has transformed the United States from being the world's biggest creditor nation—$137 billion in 1982—to the world's largest debtor, owing $532 billion at the end of 1988. By 1990, U.S. debt




will exceed three-quarters of a trillion dollars and interest payments alone will be more than $50 billion a year. At some point, this money will have to be paid back, requiring sharply reduced domestic spending on goods and services, and reductions in U.S. living standards.

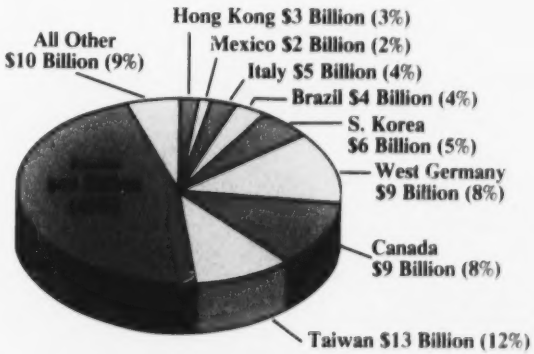
The impact of the U.S. trade deficit on employment has been severe. While total employment has grown during the 1980s, that growth has taken

place solely in the service sector. Employment in manufacturing has declined substantially. Millions of well-paying and high-quality job opportunities in the middle tier of the nation's income structure have been sacrificed as a result of America's trade decline.

The Reagan/Bush Administration's response to America's trade problems has been misguided and ineffective. The theoretical benefits of free trade and open markets have been the Administration's justification for its unwillingness to take action in support of domestic industry and workers. Yet, government policies that promote exports while protecting home markets—the classic definition of mercantilism—dominate the world of international trade. Attempts by the United States to reduce the use of such measures through multilateral, bilateral, and product-specific negotiations have been largely unsuccessful, and the U.S. market has remained open to ever increasing imports. Indeed, President Bush in his National Trade Policy Agenda released in March 1989 indicated that maintaining the openness of the U.S. market was of equal importance to efforts designed to reduce barriers to U.S. goods overseas. Such a policy only serves to deepen the trade problems now confronting this country.

The dollar, after peaking relative to other currencies in 1985, depreciated rapidly, particularly against the German Mark and Japanese Yen, through

## U.S. Merchandise Trade Deficit by Country in 1989*




**Total Deficit $110 Billion**

*Annualized data for first 8 months of 1989
Source: Department of Commerce

the end of 1987. Unfortunately, the trade improvements which were to result from the dollar depreciation, have not been fully realized. While still below 1985 levels, the dollar has grown in strength against the mark and the yen during the past six months, making improvements in the U.S. trade balance even more difficult to achieve.

Insofar as legislation is concerned, a three-year effort to reform U.S. trade law and policy was concluded in August 1988 with the enactment of the Omnibus Trade and Competitiveness Act of 1988. This bill, though seriously weakened by intense Administration lobbying, remains the most sweeping revision of U.S. trade law since 1974. It establishes new procedures for addressing U.S. trade problems and provides for greater congressional oversight on a range of issues that affect U.S. international economic performance. Among the legislation's most significant provisions is a section called "Super 301." This section requires the identification of countries that maintain a pervasive pattern of unfair trade practices, to be followed by intensive negotiations with those countries to eliminate those practices and achieve an increase in U.S. exports. In addition, the bill defines, in Section 301, the denial of internationally recognized worker rights as an unfair trade practice; it extends the life of the trade adjustment assistance program, providing benefits to displaced secondary workers contingent on the adoption of an import fee; it strengthens existing unfair trade statutes; and establishes procedures to bring about reciprocity in telecommunications trade and government procurement policies. The legislation also addresses the problems of Third World debt and U.S. exchange rate policy, two issues which have contributed importantly to the decline in this country's trade balance.

Unfortunately, the Bush Administration, in its first major action under the new trade law, the identification of countries and practices under "Super 301," took what can only be described as a minimalist approach, squandering the opportunity to begin to reverse the failed Reagan Administration trade policy. Naming only three countries—Japan, Brazil, and India—and a total of only six unfair practices, the Administration managed to uphold the letter of the law while ignoring its intent.

Over the objections of the AFL-CIO, Congress in 1988 extended the Overseas Private Investment Corporation (OPIC) for three years. This independent government agency contributes to the loss of American jobs by providing insurance and grants for U.S. companies that invest overseas. Congress did, however, continue AFL-CIO-supported worker rights criteria which are designed to prevent OPIC from operating in nations that deny basic rights to their citizens.

The Textile & Apparel Trade Act of 1987, passed by Congress in August 1988, was vetoed by President Reagan. The bill would have limited the growth of textile and apparel imports to one percent a year, thereby providing some relief to an industry and its workers that had been seriously injured by the increasing imports. The legislation would have also provided essential relief for the domestic shoe industry.

Supported by the AFL-CIO, the Congress finalized U.S. membership in the Berne Convention for the Protection of Literary and Artistic Work

in October 1988. The Berne Convention provides the highest level of copyright protection in countries which are the largest consumers of American copyrighted work, and U.S. adherence to the Berne Convention will enable the United States to play a more effective role in international policy-making regarding copyright protection.

In other trade policy developments, the Reagan Administration, in an action long advocated by the AFL-CIO, graduated, effective Jan. 1, 1989, Hong Kong, South Korea, Singapore, and Taiwan from the Generalized System of Preferences (GSP) because of their strong trade and economic performance.

Concerning implementation, however, of the worker rights criteria under GSP and OPIC, the Reagan Administration's actions have been woefully inadequate. For 1987 and 1988, the AFL-CIO petitioned the Administration to remove a total of 16 countries from these programs for violations of internationally recognized worker rights. Despite detailed evidence of these violations, only three—Chile, Burma, and the Central African Republic—were suspended from eligibility on worker rights grounds. For many of these countries, the Administration summarily dismissed the AFL-CIO petition and declined to conduct an in-depth investigation. In July 1989 the AFL-CIO submitted new petitions on seven countries concerning their failure to adhere to internationally recognized worker rights. These cases are still pending.

The bilateral voluntary restraint agreements for steel, designed to counteract the unfair trading practices of most steel exporting nations, have been largely successful in limiting steel imports to an acceptable level and allowing the industry and its workers to rebuild. The agreements and the legislative authority to enforce them expired in the fall of 1989. The Administration announced in July, that a Voluntary Restraint Agreement program, permitting more imports, would be extended for 30 months, with the expectation that an international agreement eliminating unfair practices in steel trade would be reached by that time.

Problems in auto trade remain severe. While the Voluntary Restraint Agreement with Japan on autos has been extended in each of the last two years, the allowable level of imports remains unacceptably high. The U.S. assembly of Japanese vehicles continues to increase, but there has been little impact on either the trade imbalance on U.S. employment due to the relatively low U.S. content in these vehicles and the continued high levels of imports of assembled vehicles as well as auto parts from Japan. The domestic auto industry has been further damaged by the growth of imports from new producers like Korea, and the acceleration of foreign sourcing by U.S. firms.

The unilateral opening of the U.S. telecommunications market, occasioned by the breakup of AT&T, continues to harm domestic production. Despite sporadic action by the Administration, U.S. exports to Japan, the European Community, and other countries remain restricted.

Massive subsidies provided by European government for the production of Airbus aircraft have had an increasingly negative impact on U.S. civilian

aircraft production. Both the Reagan and Bush Administrations have engaged in lengthy and futile negotiations on this subject. Despite the lack of progress on this issue, no government action has been forthcoming.

Over the objections of the AFL-CIO, the Bush Administration approved an agreement between General Dynamics and Mitsubishi heavy industries for development and production of Japan's FSX fighter plane. This agreement transfers sensitive U.S. aerospace technology to Japan, and will do little to reduce the massive trade imbalance that persists between the United States and Japan.

Despite the fact that only a small portion of shipping volume is carried by U.S.-owned flagships, both the Reagan and Bush Administrations have resisted positive action and failed to properly enforce provisions of the Cargo Preference Act and the Jones Act, further weakening the nation's maritime industry. Similarly, no action has been taken to counteract foreign government subsidies in the shipbuilding industry, thereby weakening U.S. industry.

Insofar as negotiations are concerned, the Uruguay Round of multilateral trade negotiations that began in 1986 have intensified, with the goal of reaching a comprehensive agreement by the end of 1990. Efforts to include the issue of worker rights and trade in these negotiations continue to be unsuccessful. The Administration continues to emphasize agricultural, services, and investment, largely ignoring the problems of the domestic manufacturing sector. The major trade problem facing the United States is undeniably the massive shift that has occurred in trade in the manufacturing sector and the resultant unprecedented and destabilizing current account deficits. These deficits are matched by equally unprecedented current account surpluses of a number of America's major trading partners. Current Administration objectives will have little impact on this central problem and may, in fact, accelerate the deterioration of the domestic manufacturing sector, if essential U.S. protections in the manufactured goods area are sacrificed as the price for reductions in so-called barriers to services, investment, and agriculture.

## *U.S.-Canada Free Trade Agreement*

Despite the objections of both the AFL-CIO and the CLC, the so-called U.S.-Canada Free Trade Agreement entered into force on January 1, 1989. The Agreement, which will largely benefit multinational corporations, does not establish reciprocal trading regimes, and fails to provide necessary protections for workers on either side of the border. The Select Panel on Automotive Trade, created by the agreement, could help generate jobs on both sides of the border if it supports a substantial increase in the North American value required for vehicles to qualify for duty-free treatment.

The Bush Administration is currently intensifying negotiations with Mexico in the hope of "liberalizing" trade and investment policies, and further opening the U.S. market to imports and harming domestic production. Prob-

lems relating to the growth of the Maquiladora program and its impact on U.S. industry and employment are not being addressed.

International trade is strongly affected by international investment flows. While the United States continues to increase its holdings of plant and equipment overseas, foreign direct investment in the United States has been increasing rapidly, and other forms of capital are flooding into this country. Unlike most countries, the United States does not adequately regulate and monitor these flows. Congressional efforts to improve information gathering on foreign investment in the United States were defeated by the strong opposition of the Administration and business.

The federation, in an effort to address labor relations problems relating to foreign direct investment in the United States, has assisted affiliates in bringing charges against a number of multinational enterprises under the Guidelines for Multinational Enterprises of Organization for Economic Cooperation and Development, as well as a similar International Labor Organization declaration, at both the national and international levels.

To address the problems of international trade and investment, AFL-CIO President Lane Kirkland has testified before Congress and met with officials of private groups as well as with U.S. and foreign government representatives. AFL-CIO Secretary-Treasurer Thomas R. Donahue has served as chairman of the Labor Advisory Committee on Trade Negotiations and Trade Policy, whose membership consists of union officers and staff.

* * *

*Policy recommendations for resolving the nation's international trade problems are contained in the following resolution adopted by the 18th AFL-CIO Convention, November 1989.*

## International Trade and Investment

If the trade crisis is to be solved, it is essential that the U.S. go beyond its current reliance on blunt macro-economic policy tools. Exchange rates, fiscal policies, and interest rates, all influence trade, but by themselves cannot bring about the necessary shift in the pattern of U.S. trade. It is increasingly clear that the academic abstractions of the free trade theory and comparative advantage, upon which current U.S. government policy is based, are not guides to the management of economic issues between nations but a rationale for policies that support the interests of international business. The U.S. government has a responsibility to promote and defend the interests of the people within its borders. Current emphasis on free trade and unfettered capital movements is an explicit abrogation of that responsibility and will lead to the further globalization of production, enrich corporate elites, and harm American workers. Strong new government policies that recognize that the interests of corporate America are not identical to the interests of the nation as a whole are essential. Otherwise, the United States will continue to experience a loss of jobs, destructive trade deficits,

a growing level of international debt, and damaging giveaways of technology and markets. Such actions should include:

- The negotiation of trade deficit reduction agreements with countries enjoying large trade surpluses with the United States. These bilateral agreements must establish binding and specific timetables for the reduction of those surpluses.
- Vigorous enforcement of the Omnibus Trade and Competitiveness Act of 1988, that provides the Bush Administration with new tools to address unfair and discriminatory trade practices. Super 301, worker rights, and the Buy American title are among the bill's provisions that can help bring more fairness and equity to America's trade relationships.

Beyond these economy-wide approaches, problems encountered by individual industries require specific remedies. These include:

- Enactment of domestic content laws to assure that the United States remains a producer of automobiles and other key products, including parts. Corporations that have benefited from access to U.S. markets should be required to maintain a fair share of production in the United States providing jobs for American workers. At a minimum, the level of Japanese car exports to the United States must be significantly reduced, and the gross imbalance in auto parts trade with Japan must be eliminated by the purchase of more parts, materials and components from existing U.S. suppliers by Japanese automakers for their U.S. assembly plants and by increased exports to Japan. The Administration should insist that the Japanese facilities raise their local sourcing, as European nations have done. The growing problem of auto and parts imports from low-wage countries such as Korea also must be addressed. Furthermore, a substantial increase in North American value should be required for vehicles to qualify for duty-free treatment under the U.S.-Canada Auto Pact.
- Policies must be implemented to bring some order and stability to trade in textiles, apparel, and shoes.
- Legislation to extend the authority for five years to enforce the Voluntary Restraint Agreements (VRAs) on steel mill products.
- Strong action to address the trade problems of the telecommunications industry. Imports of telecommunications products have inundated the American market while foreign markets continue to restrict American-made goods. The Omnibus Trade Bill provides the Administration the authority to address this issue, and that authority should be utilized fully.
- Policies to maintain and re-establish domestic electronic and television industries.
- Policies to assure that a significant portion of U.S. raw materials destined for export, such as grains and logs, are processed in this country.
- To revive the U.S. maritime industry, legislation is needed to substantially increase the portion of cargo carried in U.S.-flag ships and to assure a strong U.S. shipbuilding base, thereby enhancing national security. Further, immediate action is necessary to eliminate foreign barriers to U.S. transport carriers involved in international commerce, as well as unfair trade practices in the shipbuilding industry.

- The prohibition of Alaskan crude oil exports should be maintained, and domestic carriage of the oil retained for U.S.-flag vessels. The U.S. merchant marine fleet should be given a more important role in providing auxiliary services for the U.S. Navy. The United States should ratify the UNCTAD code for liner conferences to help the domestic shipping industry attain a more equitable share of cargo generated by U.S. trade.
- Policies and appropriate action are needed to stem the export of office and other service-sector jobs.

In addition to individual industry requirements, other trade-related measures are necessary. Specifically:

- The Trade Adjustment Assistance program should be fully funded to provide adequate compensation to those unemployed because of trade and to improve training, job search, and relocation aid for those displaced workers, and to permit supplier workers to be covered under this program. Funding should be provided through the imposition of an import surcharge.
- The export of capital, technology, and price-sensitive items that damages the U.S. economy should not be promoted. The transfer of U.S. technology must be controlled to assure continued technological advances, competitive advantage for domestic production and national security. Export-Import Bank funding, including direct loan authority, must be maintained in order to provide U.S. industry with tools necessary for international competition. These funds should be made available for the domestic purchase of U.S. products to offset foreign subsidies. Financing, however, should not be used to develop projects in other countries in industrial sectors where excess capacity exists.
- Policies must be enacted to regulate the immense flows of international investment. Administration emphasis on overseas investment by American firms, such as support for Mexico's Maquiladora program, must be redirected and legislation enacted to require the disclosure and monitoring of foreign investors in the United States.
- Tax loopholes and incentives for multinational companies to move abroad—including the tax deferral privilege and the foreign tax credit—should be ended.

Provisions of the tariff schedules that reduce tariffs on products containing parts produced in the United States should be repealed.

The Overseas Private Investment Corporation (OPIC), a government agency that insures private investment abroad, should be terminated. OPIC was established to promote economic and social development in "less-developed friendly countries" while furthering the balance of payment objectives of the United States. It has failed on both these counts and has contributed to the export of American jobs. At a minimum, worker rights provisions and regulations protecting domestic production and employment must be vigorously enforced.

Bilateral investment treaties must be carefully reviewed by the Senate to insure that protection for workers is included and domestic production not harmed.

Trade preference programs must be reformed to limit the harm done to

domestic production. At a minimum, the Generalized System of Preferences and the Caribbean Basin Initiative should be restructured to graduate successful trading countries from the programs and make import sensitive items ineligible for preferential treatment.

Existing codes of conduct for multinational enterprises must be strengthened to protect the rights of workers employed by these firms and to provide effective remedies when those rights are denied. Rapid progress in this area is particularly important in light of the strong growth of foreign direct investment in the United States Subsidiaries of multinational corporations operating in this country must demonstrate the highest respect for the rights of workers to organize and bargain collectively.

In those countries that seek to attract industry through the exploitation of workers, international agreements are needed to improve labor rights and standards. In pursuit of that goal, the United States should fully utilize the worker rights provision in Section 301 of the 1988 Trade Act, to penalize those countries where basic rights and standards are denied. Provisions of the Generalized System of Preferences concerning labor rights must be vigorously enforced, and countries that abuse worker rights should be immediately removed from the program. The persistent use of child labor must be addressed through the enactment of legislation that would prohibit the importation of products produced by children, with stiff criminal penalties for violators of that ban.

The Foreign Trade Zone Act of 1938 should be repealed. Any exemption from this nation's trade laws must be proven on a case-by-case basis. At minimum, manufacturing operations should be prohibited within such zones.

The United States should end its support of loans from the International Monetary Fund (IMF) that require the borrowing countries to curb imports and push exports to pay their debts. In place of this approach, which has harmful repercussions on the United States and other economies, the IMF should be urged to promote balanced growth in both borrowing and lending countries. It is also necessary for the IMF, in constructing any economic program, to consult closely with the trade unions in the affected country in order to mitigate any harm to workers. Central to this goal is a solution to the debt crisis of developing countries. It is essential for private banks to substantially write down the value of loans and provide interest rate reductions.

We believe the Administration's objectives in the current Uruguay Round of Multilateral Trade Negotiations should be reordered to emphasize the following areas:

- GATT instruments that permit trade restrictions to safeguard balance of payments should be reformed to directly address the U.S. deficit. The massive current account imbalances that exist today are harmful to the United States, and threaten the viability of the international trading system. It is therefore appropriate for GATT to establish mechanisms that can help bring about the gradual reduction of those imbalances through the application of trade policy.

- GATT rules must be amended to include provisions that would address trade advantages gained by the denial of worker rights or the maintenance of repressive working conditions. Competitive advantage in trade should not be derived from the denial of the right to freedom of association, the refusal to insure a safe work environment, the exploitation of child labor or other reprehensible practices.
- The inadequacies of the GATT safeguard procedures need to be addressed. The United States should concentrate on exposing trade restrictive measures employed throughout the world and should develop procedures for negotiating agreements that would bring some order and stability to trade in import-sensitive products, as well as products and commodities where worldwide excess capacity exists.
- The disadvantage faced by U.S. producers as a result of current GATT rules on border tax adjustment should be eliminated by means of appropriate changes to the GATT.
- Solutions to the serious problems faced by U.S. industry in the area of counterfeiting and intellectual property rights need to be found.
- Tariffs should be maintained for import-sensitive industries.
- GATT rules must be amended to permit the imposition of an import fee to fund trade adjustment assistance programs.

It is essential for the United States to construct a more realistic general framework for coordinating world trade relationships. The huge trade imbalances that exist today cannot continue. Other countries have dealt more effectively with international trade to promote their own industrial development and employment. Negotiations and national action should be directed at the goal of achieving greater balance in trade on a sectoral level in order to preserve America's vital industrial base.

# Takeovers, Mergers and Leveraged Buyouts

Corporate merger, acquisition and leveraged buyout (M&A-LBO) activities have continued at a torrid pace over the past two years. In the process, jobs are being destroyed and the stability of the economy is increasingly threatened. Annual dollar volume of such transactions has ranged between $126 billion and $204 billion. These dollar amounts, large as they are, understate the problem since only completed "deals" are counted. Not counted is the large dollar volume involved in "successful" defenses against hostile takeover attempts. These transactions involve purchases by an incumbent management of enough shares, at rising market prices, to retain majority control. The individual or group that acquires or retains control generally borrows substantial funds to finance the acquisition of shares needed to assure majority control.

In cases involving a defense by management, funds are borrowed by the company to acquire shares. The result is a direct increase in debt. Where

a hostile suitor attempts to take over a company, or an LBO needs financing, initial borrowing is generally with short-term bank loans. After the acquisition or LBO has been completed, "junk bonds," bearing a high rate of interest, are issued to pay off the short-term loans.

The result of this M&A-LBO activity has been an explosive growth of corporate debt. According to the Federal Reserve Board, the debt of U.S. nonfinancial corporations increased by $840 billion in the last five years, while equity has decreased by almost $300 billion.

The added debt service payments are also reflected in prices and have, no doubt, contributed to the rise in the rate of inflation. With a higher debt-to-net worth ratio, corporations also have less leeway to remain solvent in the event of a recession. Operating units that become submarginal with the higher debt load have to be sold off or closed down. Safeway is perhaps one of the best examples of this with their sale or closing of hundreds of stores in different parts of the country. A few dozen Bradlees Department Stores, a subsidiary of Stop and Shop Stores, were closed under similar circumstances. In both cases, there were encumbrances of added billion-dollar debts following LBOs.

It has not only been large retailing businesses involved in M&A-LBOs that have led to job losses; there have been large job losses in the manufacturing sector as well. A few examples are Owens-Corning Fiberglas, Goodyear Tire and Rubber, Crown Zellerbach paper company, Youngstown Sheet and Tube (steel), Levi Strauss & Co., Cannon Mills, and Dan River Textiles.

Altogether, known job losses of union members as a result of cutbacks or closing of business operations in the wake of M&A-LBO activities numbered over 90,000 by January 1989.

In response to the job-loss alarm sounded by the AFL-CIO, the Senate Banking Committee held a hearing two years ago. Among those testifying were AFL-CIO Secretary-Treasurer Thomas R. Donahue; President William Wynn of the United Food and Commercial Workers; President James Hatfield of the Glass, Molders, Pottery, Plastics and Allied Workers; President Milan Stone of the United Rubber Workers; and Jack Sheinkman, Secretary-Treasurer of the Amalgamated Clothing and Textile Workers Union. Measures recommended to protect workers included: (a) Contracts entered into by a corporation, including contracts with workers, should be binding upon successors or new owners for the term of such contracts, (b) Acquirers should not be permitted to fund an acquisition (or to retire debts assumed in connection with the acquisition) by tapping a pension fund and withdrawing the so-called surplus funding from the fund, (c) Top managers of an acquired company should not be permitted an escape on golden parachutes while workers' jobs are terminated.

The adverse impact of corporate indebtedness created by M&A-LBO activities upon the viability of marginal business operations as well as pressures for wage concessions, are a matter of record. Other worker interests affected by debt-financed corporate restructurings are pension funds. Pension funds are collectively the largest institutional investors in corporate

stocks and also the largest buyers and sellers of stocks. Some large pension funds have sold stocks to raiders or to agents of an LBO in order to realize large capital gains. The great majority of employees who are covered by defined benefit plans may not benefit at all from these gains. The so-called "surplus" is likely to be skimmed off by company management.

The switching of corporate capital structures from equity to debt also has undercut the corporate tax base. From 1980 to 1985, according to Treasury data, corporate interest expense as a percent of taxable income before interest deduction rose from 36 to 47 percent. If the share of corporate income excluded from taxes as a result of interest payments had stayed at its 1980 level, the corporate tax base in 1985 would have been nearly $50 billion higher.

Early in 1989, AFL-CIO President Lane Kirkland testified before the House Ways and Means Committee on tax changes needed to deal with the LBO problems. He attacked the speculative activities and huge profits being realized from takeovers financed by debt and the subsidy inherent in being able to deduct interest paid on the debt. Kirkland emphasized the price that workers were paying in lost jobs and economic instability and called for amendment to the tax code to disallow the tax deduction for debt to finance an LBO, a takeover, or the retirement of the equity.

In testimony before the House Subcommittee on Labor-Management Relations, Secretary-Treasurer Thomas R. Donahue addressed the skimming off of so-called "excess funds" from defined benefit pension plans for corporate takeover financing. He recommended a variety of legislative measures to assure the rights of workers and retirees.

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*Policy recommendations for resolving the problems created by corporate takeovers, mergers and leveraged buyouts are contained in the following resolution adopted by the 18th Convention, November 1989.*

## Corporate Takeovers

The wave of mergers, takeovers and leveraged buyouts over the past decade has resulted directly in some 90,000 AFL-CIO members losing their jobs. Many thousands more have been forced to take wage and benefit reductions as a result of corporate restructuring and massive amounts of debt. All too often the borrowing is not for expansion or modernization, but as a stock market manipulation which serves no purpose other than to line the pockets of speculators, investment bankers, and lawyers. The employees of these companies, who do the hard work, are frequently placed at great risk while billions of dollars are channelled into hands that neither create nor produce goods or services.

By any measure, the country as a whole, and working people in particular, are paying a wholly unacceptable price to the financial manipulators who

arrange highly speculative, highly leveraged buyouts and takeover deals. Although several states have acted to address this problem, too little attention is paid to the adverse impact of these deals on plain working people throughout the nation and on the economic health of their communities.

To protect workers' jobs and pensions and curb the destructive buildup of corporate debt and manipulative profiteering, we call for:

- Tax law changes to remove the tax subsidy element from the merger-acquisition-LBO equation through disallowing the deduction for interest on debt used to finance an LBO or equity retirement and to eliminate the practice of greenmail and golden parachutes.
- Passage of the Employee Pension Protection Act (H.R. 1661 and S. 685) which contains basic pension protection for workers and retirees in the event of a reversion.
- Changes in the nation's securities laws to improve the tender offer process by requiring that raiders provide communities with detailed disclosure about their plans from the new company, lengthening the time given to stockholders to respond to tender offers and by prohibiting two-tiered offers. In addition, Congress should review issues concerning shareholders' rights. Laws governing margin rule requirements should be fully enforced.
- Federal chartering of all large corporations and financial institutions and all foreign-based corporations doing business in the United States, so that corporations cannot take advantage of weak state chartering provisions to avoid their responsibilities to workers and communities.
- Increased public disclosure requirements for all corporations doing business in the United States.
- To protect the contractual rights of workers, collective bargaining agreements entered into by a corporation should be made binding on the corporate successor or new owners for the term of such contracts.

# Employment and Training

America's civilian labor force—workers with jobs and workers looking for jobs—totalled more than 124 million in mid-1989. Labor force participation was at a record high of 66.6 percent of the civilian non-institutional population 16 years and older. Workers with jobs numbered 118 million. This was an increase of six million jobs over the 1987 average of 112 million civilian jobs.

But persistent unemployment and underemployment continue to plague the American economy. In mid-1989, more than six million workers were officially unemployed, according to the official count, for an unemployment rate of 5.3 percent. In addition, nearly one million "discouraged" workers had stopped looking for work because they were unable to find jobs. And close to five million workers who wanted full-time jobs and full-time paychecks were working part time. So 12 million American workers were suffering from unemployment and underemployment.

Employment and training issues have received increased attention in recent years as a result of widespread concern about the competitive position of the United States in the world economy. Even if competitiveness were not an issue, however, jobs and training are important for a healthy, high productivity economy.

Full employment—a job at decent pay for every person who wants to work—remains a key goal of the American labor movement.

The average worker will change jobs seven times and change careers three times in the course of a working life. So it is important that workers have opportunities to engage in a life-long process to update their knowledge and skills, upgrade their employment potential, and enrich their minds.

But training without a job at the end of training is a formula for frustration and cynicism.

In 1988, several pieces of legislation which affect training and retraining opportunities for American workers were enacted. One was the WARN law (Worker Adjustment and Retraining Notification Act) which requires employers to give workers and unions and local communities 60 days' notice before plant closings or major layoffs. Another was the dislocated worker assistance law, EDWAAA (Economic Dislocation and Workers Adjustment Assistance Act), to help the two million workers who lose their jobs in plant closings and major layoffs every year.

The EDWAAA law opened new opportunities for more state AFL-CIO representation on State Job Training Coordinating Councils, required more labor consultation on state plans to serve dislocated workers, and required states to set up a "rapid response" dislocated worker unit to respond quickly to plant closings and mass layoffs, to work with employers and unions in promoting labor-management cooperation and to give technical assistance to local EDWAAA grant receivers. Under WARN, employers closing a plant or making a mass layoff must give 60 days' notice to the state "rapid response" unit.

In 1988 and 1989, the AFL-CIO conducted a number of meetings to help affiliates get information about WARN and EDWAAA. Also, the AFL-CIO expressed the concerns of affiliates to the U.S. Department of Labor about regulations proposed to implement these laws.

The Omnibus Trade Act widened eligibility for Trade Adjustment Assistance to workers losing their jobs as a result of imports and requires workers to take training as a condition for receiving weekly cash benefits. The trade law also contains a significant education section with support for workplace literacy, technology training, and vocational education.

The welfare reform JOBS program (Job Opportunities and Basic Skills Training) of the Family Support Act of 1988 requires states to help welfare recipient parents get education and training and employment. In 1989, the AFL-CIO, recognizing the enormous potential scope of FSA-JOBS training programs in the states, urged that the implementing regulations require labor participation and consultation with labor, stronger anti-displacement language, grievance procedures for displacement complaints, and clarifica-

tion of contracting-out provisions, as well as safe and adequate child care for children of JOBS participants.

The AFL-CIO will continue to monitor all of these programs to make sure they help workers as intended.

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*Policy recommendations for meeting the employment and training needs of the nation are contained in the following resolution adopted by the 18th AFL-CIO Convention, November 1989.*

## Employment and Training

Changing technology, wrenching changes in the structure of the U.S. economy, and intense competitive pressures at home and abroad are increasing the need for worker training and education, for jobs at the end of training, and for economic policies aimed at full employment.

To meet the nation's employment and training needs, the AFL-CIO calls for sustained action on a number of fronts:

**Full Employment:** The top priority of economic policy must be full employment. Jobs at fair and decent pay must be available for every person who needs a job and wants a job.

Community service, community facilities, and infrastructure programs funded by federal, state, and local governments and private institutions can make significant contributions to full employment in addition to their important economic and social contributions.

If there are not enough jobs in the private and public sector for all who want jobs, the federal government must be the employer of last resort.

To avoid unnecessary unemployment and to promote full employment, economic conversion planning is a rational and responsible effort to deal with plant closings and mass layoffs in defense industries and military bases and other government facilities. Legislation is needed to require development of standby job-protecting, job-creating economic conversion plans for defense related plants and other government facilities.

**Training:** All workers should have opportunities for training and education to get jobs, to keep jobs, and to get better jobs. All workers, both employed and unemployed, should have opportunities for more education, basic skills improvement, training, retraining, upgrading, and upward mobility.

Training allowances and income support should be available for workers in training programs.

Trade unions have important responsibilities for supporting, protecting, and promoting training and education programs for union members and potential members. Employers and local, state, and federal governments also have basic responsibilities for supporting training and education for working people. Adequate funding with more federal support for these programs is essential.

Private and public sector cooperation in designing and implementing training programs is desirable and necessary, and labor organizations should

have an equal voice with business in such cooperation. Unions should have an opportunity to review and comment on training programs before funding decisions are made.

Apprenticeship with its combination of on-the-job training and classroom instruction should be strengthened and extended to new developing occupations.

Dislocated worker adjustment assistance, Trade Adjustment Assistance, the Jobs Corps, and other effective national training programs should be retained with adequate funds to help prepare young people and dislocated and disadvantaged adult workers for jobs. Training and services should be targeted on disadvantaged and dislocated workers who are most in need.

The welfare reform JOBS training program should be carefully monitored state-by-state to strengthen its beneficial potential— to provide good training for good jobs at fair and decent pay without displacing currently employed workers—and to prevent abuses which endanger children of welfare recipients and which force welfare recipients into low-wage, high-turnover exploiting jobs or into jobs which displace currently employed public or private sector workers.

**Labor Market Institutions:** Efficient labor market institutions can improve the matching of workers and jobs. In this process, labor unions have an important role that should be maintained and expanded.

The federal government should play a stronger role in promoting coordination of training and employment services at the state and local level. Training and employment programs supported by the U.S. Labor Department should give top priority to serving the needs of individual workers.

The U.S. Employment Service (USES) should become the recognized, accepted, adequately financed source of free employment-related services for all workers who need jobs and for all employers who need workers. The system should be federalized to meet the nation's need for a truly national labor exchange operating across state and regional boundaries. Proposals to "devolve" or defederalize the funding of the costs of administering unemployment insurance and job service programs would lead to destruction of the present federal-state system and drastically reduce services to workers and employers.

Aptitude test scores of workers at USES offices do not reflect the full range of workers' skills and abilities and experience. Therefore, aptitude test scores should be used for referral to jobs only when accompanied by job counseling and job placement efforts based on workers' experience and skills.

Labor representation should be increased on state job training councils and on business-dominated local private industry councils under the Job Training Partnership Act. JTPA provisions for consultation with organized labor should be strengthened and enforced. JTPA funding should be increased and training allowances should be available for workers in training. Labor organizations have a responsibility to make the JTPA-PIC system work as well as possible until it is improved or replaced.

The AFL-CIO calls for action in all of these areas to increase training and job opportunities for America's working people.

**American Federation of Labor and Congress of Industrial Organizations**

**815 16th Street, N.W, Washington, D.C. 20006**
**202-637-5000**

**Lane Kirkland**
***President***

**Thomas R. Donahue**
***Secretary-Treasurer***

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